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**COMPARATIVE EVALUATION OF PROFITABILITY DETERMINANTS:  
EVIDENCE OF NON-FINANCE VERSUS FINANCE FIRMS**

A thesis submitted to the Faculty of Finance and Banking in fulfillment of the  
requirements for the degree of Master of Science (Finance),  
Faculty of Finance and Banking,  
Universiti Utara Malaysia

By  
Muhammad Muhaizam Bin Musa

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## ABSTRAK

Disertasi ini bertujuan untuk mengkaji faktor-faktor yang mempengaruhi penentuan keuntungan ke atas syarikat-syarikat yang tersenarai di Papan Utama Bursa Malaysia. Disertasi ini meliputi tempoh dari tahun 1999 hingga 2003 dengan 60 syarikat dipilih daripada enam sektor utama di Malaysia. Objektif kajian pertamanya adalah untuk mengenalpasti faktor-faktor yang mempengaruhi penentuan keuntungan syarikat yang dipilih dalam kajian ini; keduanya adalah untuk membezakan faktor-faktor penyumbang yang signifikan ke atas penentuan keuntungan untuk sektor kewangan dan sektor bukan kewangan di dalam ekonomi Malaysia. Objektif ketiga adalah untuk menyelidik pengaruh sektor-sektor yang berbeza ke atas keuntungan syarikat. Kesemua dapatan diuji pada kadar signifikan 0.05. Bagi mencapai objektif tersebut, kaedah regresi “multivariate” telah digunakan untuk menguji hipotesis-hipotesis. Hasil dapatan menunjukkan bahawa intensiti keperluan modal pelaburan syarikat, nisbah leveraj, margin keuntungan, pusing ganti aset dan intensiti keperluan modal pelaburan industri untuk semua sampel syarikat mempunyai kesan yang signifikan ke atas penentuan keuntungan. Sebaliknya, peningkatan jualan syarikat dan milikan pasaran tidak mempunyai hubungan yang signifikan dengan penentuan keuntungan syarikat. Dapatan juga menunjukkan bahawa penentuan keuntungan syarikat untuk sektor bukan kewangan adalah dipengaruhi oleh peningkatan jualan syarikat, margin keuntungan, nisbah leveraj, intensiti keperluan modal pelaburan syarikat, pusing ganti aset dan intensiti keperluan modal pelaburan industri. Untuk sektor kewangan, saiz syarikat, margin keuntungan, nisbah leveraj dan pusing ganti aset merupakan factor yang mempengaruhi penentuan keuntungan syarikat. Kajian ini juga telah menunjukkan bahawa perbezaan sektor adalah tidak significant di dalam menentukan keuntungan syarikat di antara sektor kewangan dan sektor bukan kewangan.

## **ABSTRACT**

The purpose of this study is to investigate factors that affect the profitability determinants on firms listed on the Bursa Malaysia Main Board. This study covers a period from 1999 to 2004 with 60 firms selected across six sector of economy in Malaysia. The objectives of this study are firstly to find out the factors affecting profitability of the overall sectors selected in this study; secondly to differentiate the significant profitability determinants of finance sector and non-finance sector of the Malaysian economy. The third objective is to investigate the different sectors' influence on the profitability of firms. All results are tested at 0.05 significant levels. To achieve the objectives, multivariate regression is used to test the hypothesis. From the analysis, the result suggest that firm capital investment intensity, the leverage ratio, profit margin, asset turnover and industry capital intensity on all firms sample have significant impact on the profitability determinants. In contrast, firm sales growth and market share are not significantly related to the contribution on profitability determinants. On the other hand, the profitability determinants of non-finance sector are affected by firm sales growth, profit margin, leverage ratio, firm capital investment intensity, asset turnover and industry capital investment intensity. For finance sector, firm size, profit margin, leverage ratio and asset turnover are the factors that contributed to profitability determinants. This study also indicated that different sectors' effect is not significant in the determinations of profitability between finance sector and non-finance sector.

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## **LIST OF ABBREVIATIONS**

|               |          |   |
|---------------|----------|---|
| <b>ATO</b>    | <b>:</b> | <b>Asset turnover</b>   |
| <b>BNM</b>    | <b>:</b> | <b>Bank Negara Malaysia</b>   |
| <b>CII</b>    | <b>:</b> | <b>Firm capital investment intensity</b>                            |
| <b>CMP</b>    | <b>:</b> | <b>Capital Market Masterplan</b>                                    |
| <b>CMP</b>    | <b>:</b> | <b>Capital Market Masterplan</b>                                    |
| <b>D1</b>     | <b>:</b> | <b>Dummy variable for non-finance sector</b>                        |
| <b>D2</b>     | <b>:</b> | <b>Dummy variable for finance sector</b>                            |
| <b>EPS</b>    | <b>:</b> | <b>Earnings per share</b>   |
| <b>FSG</b>    | <b>:</b> | <b>Firm sales growth</b>  |
| <b>INDCII</b> | <b>:</b> | <b>Industry capital investment intensity</b>                        |
| <b>INDSG</b>  | <b>:</b> | <b>Industry sales growth</b>  |
| <b>KLSE</b>   | <b>:</b> | <b>Kuala Lumpur Stock Exchange</b>                                  |
| <b>LEV</b>    | <b>:</b> | <b>Leverage</b>   |
| <b>MDCH</b>   | <b>:</b> | <b>Malaysian Derivatives Clearing House</b>                         |
| <b>MKTS</b>   | <b>:</b> | <b>Market share of firms</b>  |
| <b>P/E</b>    | <b>:</b> | <b>Price to earnings ratio</b>                                      |
| <b>PM</b>     | <b>:</b> | <b>Profit margin</b>  |
| <b>ROA</b>    | <b>:</b> | <b>Return on assets</b>   |
| <b>ROE</b>    | <b>:</b> | <b>Return on equity</b>   |
| <b>SC</b>     | <b>:</b> | <b>Securities Commission</b>  |
| <b>SCANS</b>  | <b>:</b> | <b>Securities Clearing Automated Network Services<br/>Sdn. Bhd.</b> |
| <b>SCP</b>    | <b>:</b> | <b>Structure-Conduct-Performance</b>                                |
| <b>SIZE</b>   | <b>:</b> | <b>Firm size</b>  |

# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Chapter Overview**

The purpose of this chapter is to give a general idea of the flow of this study and its contents. The organisation of this chapter is as follows: Section 1.2 presents the definition of profitability. Section 1.3 explains the problem statements, Section 1.4 describes the objectives of the study, Section 1.5 justifies the contribution of the study and section 1.6 describes the limitations of the study. Finally Section 1.7 provides an overview of the organisation this study.

### **1.2 Definition of Profitability**

The overall literature on profitability determinants has always been viewed as one of the major concern for strategic management issues (Rumelt, 1991) and financial management (Keown, Martin, Petty and David Jr., 2001). Profitability can be defined as the ability of the firm to produce sustainable returns and the generation of wealth in a period of time (Rumelt, 1991). An elaborate definition of profitability is the compensation of net worth from the means of expansion in installed capacity, new marketing effort, further enhancement of logistics, or a combination of all (Srivastava and David, 2004). Based on these definitions, it appears that there is no

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